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National Dairy Products Corporation

ANNUAL REPORT

1944

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The Annual Meeting of Stockholders is scheduled for April 19, 1945. A proxy statement is expected to be sent to stockholders on or about March 10, 1945 at which time proxies for the Annual Meeting will be requested.

NATIONAL DAIRY PRODUCTS CORPORATION

1944 ANNUAL REPORT TO STOCKHOLDERS

AGAIN in 1944 the demands of war dictated the pattern of our national economy. Productive output and national income, both at new high levels, reflected a nation employed at record capacity to support the mounting tempo of war.

In this pattern, dairy foods, in greater demand than ever before, continued to occupy a major position, essential to the success of the war effort at the front, at home and in allied and liberated countries. As a leading processor and distributor of these vital foods, National Dairy did the largest volume of business in its history.

Although military requirements and increased purchasing power at home made it impossible for us to supply our civilian customers with all the dairy products they wanted, National Dairy's sales in 1944 reached a record total of $593,853,000, as compared with our previous high of $580,173,000 in 1943.

Earnings increased to $2.12 per share of common stock, compared with $2.08 per share in 1943, after reserves. This is 2.24 cents on each dollar of sales, the same percentage as in 1943.

Federal income and excess profits taxes increased $4,000,000, from $29,000,000 in 1943 to $33,000,000 in 1944, and the latter sum has been invested in U. S. Treasury Savings Notes for their payment. This represents $5.27 a share, as compared with $4.63 a share in 1943. Total estimated tax expense for 1944, including Federal, State and all other direct taxes, was $40,644,000, compared with $36,099,000 in 1943.

We paid 36,698 employes wages amounting to $94,648,000, compared to payments of $88,632,000 to 36,281 employes in 1943.

To keep our plants functioning efficiently we spent $11,779,000 for repairs and maintenance, excluding replacement of milk bottles, compared with $9,797,000 in the previous year. Our expenditures for property, plant and equipment in 1944 were $5,353,000 and depreciation amounted to $8,663,000.

DIVIDEND INCREASE

FOLLOWING the stated intention of your Directors to declare dividends justified by the financial position of the Company, a total of $1.10 was paid in 1944, compared with $1.00 in 1943. This was paid at the rate of 25 cents a share for the first and second quarters and 30 cents a share for the third and fourth quarters. At the February 1, 1945, meeting of the Board of Directors, a quarterly dividend of 35 cents a share was declared payable March 10, 1945.

IMPROVED FINANCIAL POSITION

ON December 31, 1943, your Company had outstanding $52,800,000 in 3¼ per cent debentures due in 1960 and $7,500,000 in serial debentures due at the rate of $1,500,000 in 1944, 1945, 1948, 1949 and 1950. During 1944, $1,100,000 of the 3¼ per cent debentures were retired and $6,000,000 of the serial debentures, making a reduction for the year of $7,100,000. The remaining $1,500,000 of the serial debentures was retired January 15, 1945.

During the past two years, and including the redemption on January 15, 1945, the Company has retired debt in the total principal amount of $15,973,000. As a result, both payments on principal and interest charges will be considerably reduced. In the period between now and 1951 our required minimum debt retirement amounts to $550,000 annually. This compares with a minimum retirement obligation during the preceding five years of $2,050,000 annually.

As a result of anticipating its debt retirement, your Company also obtained the right under income tax regulations to the immediate use of substantially all of its post-war tax credit.

Your Company's contingency reserve totalling $10,000,000, established in 1941, 1942 and 1943, is considered adequate, and was not increased during 1944.

INCREASED WORKING CAPITAL

CURRENT assets as of December 31, 1944, were $113,799,000 as compared with $104,892,000 in the previous year. Of these assets, $45,346,000 were in cash and United States Government short term securities, representing an increase in these items of $15,579,000 during the year. Our inventories decreased $7,379,000 during the year. Current liabilities were $29,888,000, compared with $28,298,000 in 1943.

Working capital increased to a new high from $76,594,000 at the end of 1943 to $83,911,000 at the end of 1944, with cash and short term Government securities $15,458,000 in excess of current liabilities. A contributing factor to the substantial improvement in working capital during recent years has been the fact that the depreciation provision has exceeded expenditures for new plant and equipment during the war period. When equipment and labor is again available, it is probable that our requirements for plants and equipment will exceed our depreciation provisions for a few years. The Company, however, is in an excellent financial condition to meet these deferred requirements.

During 1944 several properties no longer needed for the business were sold. In addition, the Company sold active properties in five markets where, for reasons of efficiency and more strategic location, new plants are to be built after the war. Leases were taken on the properties sold until the new plants are built. In the judgment of your Directors, it was considered advisable to sell these plants during the current period of more active demand for properties. As shown in the profit and loss statement, the loss on the sale of properties amounted to approximately $2,269,000. This resulted in a substantial saving in income taxes.

In the back of this report you will find again this year a ten-year comparison of your Company's financial position, together with other pertinent data which will prove helpful in tracing the progress of the Company.

SALES FOR DIRECT WAR PURPOSES

CONTINUING its important role as a provider of essential foods for the Army, Navy, Marine Corps, Coast Guard, Maritime Service and Lend-Lease shipments, your Company's sales to the Government in 1944 totalled $90,922,000, or a little less than one-sixth of its volume. While this was $5,499,000 less than in 1943, the actual number of units handled was greater due to the fact that a substantial part of our war work in 1944 consisted of processing Government-owned products.

Deliveries of our own products included 48 million quarts of milk, 8½ million gallons of ice cream, 101 million pounds of cheese, 23½ million pounds of butter, ½ million pounds of other Army and Navy ration spreads, 10 million pounds of margarine, 41½ million pounds of powdered milk, 1 million cases of evaporated milk, 769 thousand gallons of salad dressing and 3 million cans of Tushonka (a Russian Army meat ration).

Cheese continues to be one of the important food items for Lend-Lease and the Army and Navy. During 1944 the Government took under set-aside orders amounts varying from 25 to 60 per cent of the monthly production, so that the amount available for domestic civilian consumption was probably not in excess of 55 per cent of the total. The Government also requisitioned a large percentage of the butter and evaporated and whole milk powder production. In the case of butter, the civilian supply was reduced very materially. Although there were no Government set-asides in salad dressings, ice cream and milk, the amounts available for civilian consumption were limited by Government restrictions on supply.

ACHIEVEMENT AWARDS

DURING the past twelve months our Deerfoot Farms Division was presented with the Achievement "A" Award of the War Food Administration for "outstanding efficiency in the processing of meat products for the Armed Forces," and three of our Kraft Cheese Division plants had the fourth star added to their Army-Navy "E" flags.

Continued evidence of the Government's satisfaction with the prices it pays for our products was shown when renegotiation of our 1943 contracts, like those of 1942, resulted in approval of the original transactions and no refunds were required.

Two Federal anti-trust cases formerly pending in the Southern District of New York and a third Federal anti-trust case formerly pending at Madison, Wisconsin, were disposed of during the year on the basis of nolo contendere pleas and the payment of small fines. These were suits involving numerous members of the cheese industry, certain of our cheese divisions and some of their officers. In the light of our experience in trying the brick cheese case at Chicago in 1943 (in which all defendants were acquitted), it was deemed wise to settle these three cases rather than incur the expenditure of the large sums of money which the trials would have cost and the loss of time of operating executives who were needed for the more important work of running the business in these troublesome war times.

EMPLOYE INCENTIVES

IN general, the incentive compensation plans of the operating divisions in effect in 1944 were a continuation of similar plans in effect in prior years. These plans covered in 1944 a total of 1,098 key employes who earned under the plans an aggregate of $1,218,000. None received more than 1¼ per cent of the total. No officers of National Dairy Products Corporation participated in any of the plans.

At the 1944 annual meeting of stockholders an employes' share purchase plan was approved, and 300,000 shares of common stock of the Corporation were reserved for issue under the plan. The purposes of this plan are to strengthen the desire of key employes to remain with the Company or its divisions, to increase their investment in the Company and to stimulate further their efforts in behalf of the Company. During the year sixty employes were granted privileges under this plan to purchase an aggregate of 163,350 shares. Your Company is well pleased with the results of the plan to date and believes that it is working to the substantial benefit of the Company.

Each year commencing in 1941, the Company has made a substantial payment toward the cost

of the past service annuities provided under the retirement annuity plan. Following a slight modification of the plan in 1944 to conform to income tax law changes, your Board of Directors determined to pay off the balance of the cost of past service. Satisfactory arrangements were made with John Hancock Mutual Life Insurance Company to accept as payment in full $3,140,000, as against an estimated cost (if paid over a number of years) of $3,950,000. Of this amount $1,711,000 was charged to 1944 operations.

Your management is also pleased to report that the balance of the loans to employes was paid off in 1944. These loans have now been paid in full and the last $200,000 of a reserve which was established out of earned surplus against loans to employes was restored in 1944.

RESEARCH AND DEVELOPMENT

THE history of American business bears witness to the fact that the source of success is the ceaseless search for something new and something better at lower cost. This is no less true of the dairy industry than of the electrical, automotive, transportation or communications industries. While food has been man's most essential need from the day he was created, it was only within the lives of our own grandparents that the facts of nutrition even began to be understood. With each advance in knowledge has come demand for new methods of producing, processing and distributing foods to insure the maximum benefit from their consumption. High authorities have repeatedly stated that the one food for which there is no effective substitute is milk. They all agree that the dairy industry occupies a key position, and a unique one, in the nutrition program of the nation. These facts point to increased public appreciation of dairy products.

Today new data on the science of balanced diet and its effect on human health and capacity is being accumulated in our armed forces. Never before has there been so aggressive an attitude on the part of medical and scientific workers in general toward finding ways to improve the human diet. From this expanded knowledge will come increased responsibility upon the food industry to provide new and improved products at the lowest possible cost.

Less than a lifetime ago milk's primary function as a food was considered the end of its usefulness. Today, by breaking it into its component parts, we have uncovered a vast new future in industry and chemistry for the by-products of milk. From milk we now get textile fibers, plastics, paint, vinegar, lactose, sodium lactate, lactic acid and many other useful products.

Most of these developments have come within the lifetime of National Dairy, and your Company has played a major part in many of them. Without a continuing program of research it would have been impossible for your Company to have grown and improved its position during this period of rapidly expanding scientific knowledge, and we are looking forward to a further extension of this work in the near future.

As soon as materials and trained personnel are available after the war, your Company plans to construct a new research laboratory containing the most modern equipment and facilities, and to staff it with a greatly enlarged group of technicians. Adequate space will be provided at the site for future additions as needed, and for pilot plants in which laboratory developments can be translated into commercial products.

In the meantime, our research work is progressing steadily. During these war years, in addition

to our regular program of activities, the use of our laboratories and the assistance of their staffs have been sought by various Government agencies. We are glad to have been of service in this connection, and shall continue to offer our services wherever they may be found useful.

In the interest of promoting a broad program of fundamental research in food and nutrition, we also are continuing to co-operate in the underwriting of The Nutrition Foundation, Inc., which is stimulating valuable work through the granting of aid to research projects in universities and colleges.

PROMOTION AND ADVERTISING

OUR experimental kitchens, the Sealtest Laboratory Kitchen in New York and the Kraft Experimental Kitchen in Chicago, have continued to build valuable consumer good will by giving practical assistance to the housewives of America through individual letters and the distribution of millions of folders and booklets of recipes, menus and diets, based on a sound nutritional foundation but with due regard to rationing and wartime food supply problems.

The three national radio programs sponsored by your Company — the Sealtest Village Store, Kraft Music Hall and the Great Gildersleeve — have met with increasing popular acceptance, two of them having received "All-American" Radio Program honors in 1944. In addition to the tremendous influence they have had in building public good will, they have contributed substantially to the war effort by appealing for increased War Bond purchases, Red Cross contributions and Cadet Nurse, WAC, WAVE and SPAR enlistments and by co-operating in the dissemination of other Government-sponsored information.

Since 1942, your Company has carried on a public information advertising program to acquaint the public with its aims, products and services. During the past year this program enjoyed increasing endorsement and respect, both from distinguished individuals in the profession and from readers of the national magazines in which the advertisements appeared. Standard survey studies indicated conclusively that the reader interest for all of our advertisements was very high.

7,924 EMPLOYES IN ARMED SERVICES

DURING the year the total number of National Dairy men and women who have entered the armed services of their country increased to 7,924. The splendid record they are making, hallowed by the final sacrifice of 140 who gave their lives in the line of duty, is the deepest source of renewed inspiration that the rest of us in the organization can ever know.

Some men have been honorably discharged, and we are happy to report that most of them have elected to return to the Company, and have either been reinstated in their former positions or employed in other equally important capacities.

At home, our 36,698 employes continued to give splendid service and co-operation through the third year of activity under trying wartime conditions. The spirit they displayed in meeting the daily difficulties surrounding the necessary operation of an essential industry is a matter of pride to the Company and satisfaction to those it serves.

IN PROSPECT

MILK and its products are expected to hold the same position of importance in the 1945 food production plans of the War Food

Administration and the Department of Agriculture that they have occupied in the previous war years. More milk has been produced and sold in the United States in the past two years than ever before in dairy history, and indications are that a similar high level will be attained in 1945.

How nearly total milk production in 1945 will meet the combined demand of our armed forces, our Lend-Lease allies and the civilian population in our own country will depend, of course, upon the ability of American farmers to maintain the splendid production record they have made so far in the face of constantly increasing shortages of manpower and equipment. While their achievement in previous war years is our best assurance that they will again provide a high volume of milk, it must be recognized that they need and deserve all the help that can possibly be given them in overcoming the handicaps under which they are working.

Naturally, the progress of the war will be a major factor in shaping our national economy, but this is a factor that will have less effect upon your Company than it will in many other industries. Fortunately, we have no major reconversion problem, nor does your management foresee any marked lessening in the demand for dairy products. The civilian demand for our products now exceeds the supply and it seems inevitable that the Government will continue to require large amounts as long as hostilities last and for many months after they cease.

Looking beyond 1945 to the post-war years, it would seem that the dairy industry has good reason for confidence. Millions of young men and women have developed a taste for milk, ice cream and cheese in the armed forces, and it is reasonable to believe that they will carry this taste into their civilian life. Millions of other men and women at home have become dairy product customers within the past few years.

As was mentioned in the section on research, a whole new field of operation for the dairy industry is opening up in the chemical and industrial by-products of milk, a business which some day may be as large in volume as the sale of milk itself. These new markets, added to the indicated expansion of old ones, point to a future of opportunity for the industr,.

By Order of the Board of Directors.

THOS. H. MCINNERNEY
Chairman

L. A. VAN BOMEL
President

New York, N. Y.
March 1, 1945.

ARTHUR ANDERSEN & CO.

AUDITORS' CERTIFICATE

To the Board of Directors and Stockholders of

National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic subsidiary companies as of December 31, 1944, and the statements of consolidated profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year 1943.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus present fairly the financial position of National Dairy Products Corporation and domestic subsidiary companies consolidated at December 31, 1944, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.
March 1, 1945.

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES

Consolidated Balance Sheet

ASSETS	*December 31, 1944*		*December 31, 1943*	
CURRENT ASSETS:				
Cash		$ 26,920,548		$ 18,569,660
U. S. Government securities		18,425,741		11,197,660
Notes and accounts receivable	$ 26,874,682		$ 25,807,946	
Less—Reserve for bad debts	3,293,973	23,580,709	2,935,042	22,872,904
Inventories, at lower of average cost or market:				
Products and materials	$ 37,089,533		$ 42,909,674	
Supplies	7,782,758	44,872,291	9,341,969	52,251,643
Total Current Assets		$113,799,289		$104,891,867
INVESTMENTS AND OTHER ASSETS:				
Foreign subsidiaries:				
Canadian	$ 2,599,563		$ 2,593,902	
English, Australian and Argentine	3,998,513		4,006,392	
Continental European	1		1	
	$ 6,598,077		$ 6,600,295	
Less—Reserve for investments	3,503,935		3,060,983	
	$ 3,094,142		$ 3,539,312	
Domestic subsidiaries, not consolidated	824,772		20,272	
Miscellaneous investments, deposits and receivables, less reserve	2,715,073		3,067,514	
Loans to employes, less reserve of $200,000 at December 31, 1943	None	6,633,987	169,692	6,796,790
PROPERTY, PLANT AND EQUIPMENT (Stated at cost or, as to certain properties, at sound values as appraised as of dates of acquisition, less certain adjustments):				
Land	$ 13,003,610		$ 14,102,671	
Buildings, machinery and equipment	127,888,420		133,967,041	
	$140,892,030		$148,069,712	
Less—Reserve for depreciation	55,918,403	84,973,627	55,881,229	92,188,483
PREPAID AND DEFERRED ITEMS		2,605,783		2,021,520
GOODWILL		1		1
		$208,012,687		$205,898,661

(*See Notes to Consolidated Financial Statements, page 11*)

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES

Consolidated Balance Sheet

LIABILITIES	*December 31, 1944*		*December 31, 1943*	
CURRENT LIABILITIES:				
Serial Debentures (*Paid January 15, 1945)		$ 1,500,000*		$ 1,500,000
Accounts payable		20,909,369		20,292,059
Accrued liabilities		7,478,448		6,505,940
Provision for Federal taxes on income	$ 33,080,000		$ 29,000,000	
Less—U.S. Treasury Savings Notes, Series C	33,080,000	None	29,000,000	None
Total Current Liabilities		$ 29,887,817		$ 28,297,999
FUNDED DEBT:				
Serial Debentures (less $1,500,000 carried under current liabilities above)	$ None		$ 6,000,000	
3¼% Debentures due 1960 (semi-annual purchase fund requirements $275,000 (minimum) through December 1, 1950 and $825,000 thereafter through June 1, 1960)	51,700,000	51,700,000	52,800,000	58,800,000
MINORITY INTEREST IN SUBSIDIARIES		345,308		321,401
RESERVES FOR:				
Contingencies	$ 10,000,000		$ 10,000,000	
Prior years' Federal and State taxes	6,986,312		5,732,016	
Insurance	546,797		612,846	
Other	83,762	17,616,871	309,225	16,654,087
CAPITAL STOCK AND EARNED SURPLUS:				
Common stock—				
Authorized—8,000,000 shares without par value				
Issued—6,255,247 shares at stated value	$ 51,266,676		$ 51,266,676	
Earned surplus, per statement attached	57,196,015	108,462,691	50,558,498	101,825,174
		$208,012,687		$205,898,661

(See Notes to Consolidated Financial Statements, page 11)

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Statement of Consolidated Profit and Loss and Earned Surplus

PROFIT AND LOSS

	Year Ended December 31, 1944		*Year Ended December 31, 1943*	
INCOME:				
Net sales	$593,852,943		$580,173,068	
Other income	1,718,465	$595,571,408	1,311,023	$581,484,091
INCOME DEDUCTIONS:				
Cost of products	$441,609,399		$436,738,842	
Delivery expense	58,465,919		56,991,060	
Selling expense	24,175,039		22,786,186	
General and administrative expense	18,892,601		16,931,224	
Cost of past service retirement annuities	1,710,813		538,970	
Net loss on disposal of plant and equipment	2,268,725		231,738	
Miscellaneous charges	331,884		795,851	
Interest on funded debt	1,798,740		1,921,409	
Provision for Federal taxes on income	33,000,000	582,253,120	29,000,000	565,935,280
Net profit (before contingencies)		$ 13,318,288		$ 15,548,811
Provision for contingencies		None		2,500,000
Balance transferred to earned surplus		$ 13,318,288		$ 13,048,811

EARNED SURPLUS

	Year Ended December 31, 1944		*Year Ended December 31, 1943*	
Balance at beginning of year		$ 50,558,498		$ 63,594,449
Add—				
Balance transferred from profit and loss	$ 13,318,288		$ 13,048,811	
Restoration of balance of reserve for loans to employes	200,000	13,518,288	None	13,048,811
		$ 64,076,786		$ 76,643,260
Deduct—				
Dividends paid on common stock—$1.10 and $1.00 per share in 1944 and 1943, respectively	$ 6,880,771		$ 6,255,247	
Adjustments in 1943 to state goodwill at nominal value of $1 (less $2,230,338 charged to capital surplus, being the balance thereof)	None	6,880,771	19,829,515	26,084,762
Balance at end of year		$ 57,196,015		$ 50,558,498

(See Notes to Consolidated Financial Statements, page 11)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and consolidated domestic subsidiaries as of December 31, 1944 and December 31, 1943 and the consolidated operations for the years ended on such dates.

H. P. BROWN,
Comptroller

New York, N. Y., March 1, 1945.

FEDERAL TAXES ON INCOME

The provision for Federal taxes on income for the years 1944 and 1943 as estimated covers the following:

	1944		1943	
Normal tax and surtax		$ 6,720,000		$ 7,400,000
Excess profits tax	$29,200,000		$24,000,000	
Less—Debt retirement credit	2,840,000	26,360,000	2,400,000	21,600,000
Amount shown as liability		$33,080,000		$29,000,000
Less—Post-war excess profits tax refund (a non-current receivable)		80,000		None
Amount charged to profit and loss		$33,000,000		$29,000,000

EMPLOYES' SHARE PURCHASE PLAN

300,000 shares of the authorized and unissued common stock of the Corporation are reserved until May 15, 1954 for sale to key employes pursuant to the Employes' Share Purchase Plan approved by the stockholders at the 1944 annual meeting. Privileges to purchase 105,750 shares were granted to 21 employes in June 1944 at $21.75 per share and privileges to purchase 57,600 shares were granted to 39 other employes in December 1944 at $26.00 per share. The purchase privilege price in each case is equal to 105% of the average market price for the 30 days preceding the date of the grant. In each case the total number of shares is purchasable in equal amounts in nine periodic instalments extending to May 15, 1954, and any shares not purchased on the applicable instalment date may be purchased thereafter at any time on or before May 15, 1954. These privileges to purchase are non-assignable.

CASH DIVIDEND RESTRICTION

The Indenture under which the funded debt of the Corporation is outstanding provides in substance that cash dividends may be paid only if thereafter (a) the balance of consolidated earned surplus (to which may be added back the adjustments of $19,829,515 made in 1943 to state at $1 the goodwill acquired prior to September 1, 1940) exceeds $35,000,000 (which sum is subject to adjustment in certain circumstances, including a reduction of $500,000 for each reduction of $1,000,000 in consolidated funded indebtedness below $70,000,000), and (b) consolidated tangible assets after deducting consolidated liabilities other than consolidated funded indebtedness shall be equal to at least 1¾ times the consolidated funded indebtedness. Certain of the terms used are defined in the Indenture.

PAST SERVICE RETIREMENT ANNUITIES

In 1944 the Corporation completed purchase of all past service retirement annuities for employes eligible under the Corporation's retirement annuity plan by payment of $3,140,000, of which $1,710,813 was charged to profit and loss in 1944 and $1,429,187 was deferred. The amount deferred is the estimated Federal income tax benefits which may be derived in the future as the result of amortizing the payments for past service annuities in accordance with the Federal income tax laws and regulations. This amount will be written off subsequently over a period estimated not to exceed seven years by annual charges to profit and loss in amounts at least equal to the savings in Federal taxes on income resulting in the respective years from the allowance of the amortized amount applicable to each of such years as a deduction from gross income for Federal income tax purposes.

DEPRECIATION

Provision for depreciation charged to costs and expenses for the years 1944 and 1943 aggregated $8,663,118 and $8,931,094, respectively.

As of January 1, 1945 the following change in the depreciation policy of the Corporation and subsidiaries will be effected. The group composite rate method instead of the unit method will be applied to all assets now depreciated by the unit method (except land improvements and buildings) by the discontinuance of transfers to the fully depreciated assets in use account and the continuance of depreciation on each asset as long as it remains in use and by transferring to the reserve for depreciation the difference between gross book value and the amount of salvage realized at the time of routine disposal. In other respects the depreciation policy will remain unchanged.

Had the foregoing change been in practice during the year 1944, the provision for depreciation for that year would have been increased approximately $300,000.

SUBSIDIARIES NOT CONSOLIDATED

All domestic subsidiary companies have been included in consolidation in the financial statements, except a mutual insurance company (in which the investment is $800,000) and two minor companies (in which the investment is $24,772) in which latter companies not more than fifty-one per cent of the capital stock is owned. All foreign subsidiaries have been excluded from consolidation in the financial statements.

The net sales and the Corporation's equity in net profits for the year ended December 31, 1944, of subsidiaries located in Canada, England, Australia and Argentina aggregated $25,283,260 and $730,681, respectively (translated into terms of U. S. dollars at current rates of exchange on December 31, 1944). Cash dividends were received in 1944 from Canadian and English subsidiaries in amounts aggregating $442,952. These dividends (which were not included in earnings) were added to the reserve for foreign investments and advances. In prior years such dividends were credited to earned surplus and concurrently appropriated to the reserve for foreign investments and advances.

RENEGOTIATION

During 1944 the Price Adjustment Board of the War Department reviewed the renegotiable sales and related profits for the year 1943 and advised the Corporation that no refund of the profits on such sales was required. The management believes that profits on the renegotiable sales in 1944 were not excessive and that no liability for a refund exists.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC SUBSIDIARY COMPANIES

Condensed Ten-Year Statement of Consolidated Assets and Liabilities

(All amounts are expressed in thousands)

	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935
WORKING CAPITAL:										
CURRENT ASSETS										
Cash and marketable securities	$ 45,346	$ 29,767	$ 17,028	$ 15,016	$ 16,916	$ 16,727	$ 16,908	$ 19,281	$ 17,778	$ 22,265
Notes and accounts receivable (net)	23,581	22,873	23,828	26,807	17,592	17,803	17,051	16,630	16,017	14,846
Inventories	44,872	52,252	50,410	55,338	33,798	32,113	30,518	28,505	30,759	21,583
Total Current Assets	$113,799	$104,892	$ 91,266	$ 97,161	$ 68,306	$ 66,643	$ 64,477	$ 64,416	$ 64,554	$ 58,694
CURRENT LIABILITIES										
Bank loans	$ 0	$ 0	$ 1,757	$ 13,475	$ 0	$ 0	$ 5,864	$ 8,100	$ 4,695	$ 0
Serial Debentures	1,500	1,500	1,500	1,500	1,500	0	0	0	0	0
Accounts payable and accruals	28,388	26,798	23,317	22,859	17,888	17,944	15,991	18,700	18,399	17,364
Provision for Federal income tax	33,080	29,000	18,500	9,676	4,580	3,299	3,094	2,560	2,566	1,886
Less—U. S. Treasury Notes	*33,080*	*29,000*	*18,500*	0	0	0	0	0	0	0
Total Current Liabilities	$ 29,888	$ 28,298	$ 26,574	$ 47,510	$ 23,968	$ 21,243	$ 24,949	$ 29,360	$ 25,660	$ 19,250
Working Capital	$ 83,911	$ 76,594	$ 64,692	$ 49,651	$ 44,338	$ 45,400	$ 39,528	$ 35,056	$ 38,894	$ 39,444
PROPERTY, PLANT AND EQUIPMENT (Net)	84,974	92,188	97,387	100,575	94,962	97,680	105,677	108,405	106,038	103,887
INVESTMENTS, OTHER ASSETS AND PREPAID ITEMS	9,240	8,818	9,883	11,394	12,530	7,022	7,179	7,594	7,245	7,038
Total	$178,125	$177,600	$171,962	$161,620	$151,830	$150,102	$152,384	$151,055	$152,177	$150,369
FUNDED DEBT	$ 51,700	$ 58,800	$ 64,416	$ 66,450	$ 68,500	$ 56,899	$ 60,875	$ 64,039	$ 67,445	$ 67,070
PREFERRED STOCK	0	0	0	0	0	9,871	9,871	9,871	9,871	9,871
MINORITY INTEREST	345	321	298	350	336	894	915	920	932	1,096
RESERVES	17,617	16,654	12,216	7,601	2,998	3,074	2,762	2,636	2,321	1,816
Total	$ 69,662	$ 75,775	$ 76,930	$ 74,401	$ 71,834	$ 70,738	$ 74,423	$ 77,466	$ 80,569	$ 79,853
Book Value of Common Stock	$108,463	$101,825	$ 95,032	$ 87,219	$ 79,996	$ 79,364	$ 77,961	$ 73,589	$ 71,608	$ 70,516

NOTES:

(1) All foreign subsidiaries are consolidated with domestic subsidiaries in the years 1935 through 1939 (except that German subsidiaries are not consolidated in 1939); only domestic subsidiaries are included for 1940 through 1944.

(2) Prior years' figures have been rearranged to conform with 1944.

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC SUBSIDIARY COMPANIES
Condensed Ten-Year Statement of Consolidated Profit and Loss

(All amounts are expressed in thousands, except per share and other statistics)

	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935
INCOME:										
Net sales	$593,853	$580,173	$562,451	$431,049	$347,410	$336,694	$334,355	$351,015	$329,171	$290,441
Other income	1,718	1,311	1,306	1,249	935	1,026	1,164	1,127	1,198	995
Total income	$595,571	$581,484	$563,757	$432,298	$348,345	$337,720	$335,519	$352,142	$330,369	$291,436
INCOME DEDUCTIONS:										
Cost of products	$441,609	$436,739	$425,808	$310,274	$239,090	$225,838	$228,585	$245,781	$227,083	$197,034
Delivery expense	58,466	56,991	57,111	53,321	52,189	52,857	52,820	53,497	49,043	47,393
Selling expense	24,175	22,786	26,430	26,598	25,922	26,159	24,192	24,942	22,651	19,788
General and administrative expense	18,893	16,931	15,822	14,151	12,918	13,620	12,858	12,572	12,218	11,406
Miscellaneous	4,311	1,567	2,008	1,091	965	1,181	801	524	1,021	1,276
Interest on funded debt	1,799	1,921	1,956	1,978	2,104	2,238	2,335	2,452	2,921	3,534
Provision for Federal income tax	33,000	29,000	18,500	8,950	4,063	2,793	2,602	2,083	2,150	1,667
Provision for contingencies	0	2,500	3,900	3,600	0	0	0	0	0	0
Total income deductions	$582,253	$568,435	$551,535	$419,963	$337,251	$324,686	$324,193	$341,851	$317,087	$282,098
Amount to earned surplus	$ 13,318	$ 13,049	$ 12,222	$ 12,335	$ 11,094	$ 13,034	$ 11,326	$ 10,291	$ 13,282	$ 9,338
Less—Preferred dividends	0	0	0	0	691	691	691	691	691	691
Balance	$ 13,318	$ 13,049	$ 12,222	$ 12,335	$ 10,403	$ 12,343	$ 10,635	$ 9,600	$ 12,591	$ 8,647
PAYMENTS:										
Dividends	$ 6,881	$ 6,255	$ 5,004	$ 5,004	$ 5,004	$ 5,004	$ 6,255	$ 7,506	$ 7,506	$ 7,505
Wages	94,648	88,632	83,136	72,992	68,098	66,328	64,996	65,889	61,534	57,851
Taxes	40,644	36,099	25,453	15,696	9,984	8,473	8,036	7,011	5,770	4,300
PER SHARE STATISTICS:										
Earnings	$ 2.12	$ 2.08	$ 1.95	$ 1.97	$ 1.66	$ 1.97	$ 1.69	$ 1.53	$ 2.01	$ 1.38
Dividends	1.10	1.00	.80	.80	.80	.80	1.00	1.20	1.20	1.20
Taxes	6.50	5.77	4.07	2.51	1.60	1.35	1.28	1.12	.93	.69
OTHER STATISTICS:										
Number of—										
Stockholders	66,636	66,889	68,798	68,820	69,264	70,078	73,723	73,187	69,963	72,028
Employes	36,698	36,281	38,126	36,697	35,565	36,543	35,911	37,227	36,256	35,146

NOTES:

(1) All foreign subsidiaries are consolidated with domestic subsidiaries in the years 1935 through 1939 (except that German subsidiaries are not consolidated in 1939); only domestic subsidiaries are included for 1940 through 1944.

(2) Prior years' figures have been rearranged to conform with 1944.

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